RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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March 4, 1992 **LETTER 1090**

Feb. 21 DJIA 3280.19; PTI 3467; A-D Ratio -8.84
Feb. 28 DJIA 3267.89; PTI 3467; A-D Ratio -8.88
Dow Yield: 2.79%; Dow P/E: 57.9
Dow 200-day MA: 3035; Dow 30-day MA: 3250
Dow Times Book Value: 2.45; PTI 89-day MA: 3425
Percentage of Undervalued Blue-chips: 8%

CONFIDENCE: Everyone was shocked. On February 25 the Conference Board announced that its Index of Consumer Confidence had dropped to 46.3, down four points from January's low level, and the lowest level since December 1974 (my note: in December 1974 we were at the bottom of a vicious bear market, a bear market that had cut the Dow in half).

"Why the abysmal collapse in confidence?" asked the economists. My own belief is that the roots of America's pessimism go far beyond the current recession. The pessimism has to do with the perception that the US is on a long slide down, and that neither Washington nor anyone else is doing anything about it. The collapse in Consumer Confidence has to do with the wiping out of millions of jobs, jobs that are not just "out for the duration of the recession," but jobs that are permanently gone (for the most part, these are jobs that have been lost to competition from overseas). The pessimism has to do with the perception that the finances of the US are totally out-of-control. The pessimism has to do with a Congress that is seen to be corrupt, self-serving, and interested first and foremost in getting re-elected. The pessimism has to do with the feeling that "for the first time in American history our children will not have as good a life as we have had." The collapse in American confidence has to do with the fact that there are two Republicans and five Democrats running for presidential office, and nobody is enthusiastic about any of them.

USA TODAY (no, I'm not talking about the newspaper): Overhanging every other problem and consideration in our nation today is this: The US economy is operating on deficits of over $1 billion a day. Normally, that kind of deficit spending would be wildly inflationary. It would send any "normal" economy spiraling higher. But today the US economy is so mired in debt that the $1 billion-a-day deficit doesn't even stimulate the economy -- and when you think about it, that smacks of deflation -- and it's ominous.

What about a serious move to cut the deficit? Forget it, any major reduction in the federal deficit would throw the current "fragile" US economy into a tailspin. In other words, deficit spending is now BUILT INTO the US economy -- we're living on it. We need deficits just to stand still. With deficits of $400-500 billion a year, the US is literally running up the down escalator.

Business Outlook

MARCH 2, 1992 BY JAMES C. COOPER AND KATHLEEN MADIGAN

THE BOND MARKET IS TURNING INTO THE VILLAIN OF THE PIECE

The 1992 recovery has made an enemy: the bond market. Even the slightest hint of a rebound sends traders into a selling frenzy that pushes up long-term interest rates. As a result, long rates have surged back toward levels that are putting a choke hold on an economy that's struggling to get back on its feet.

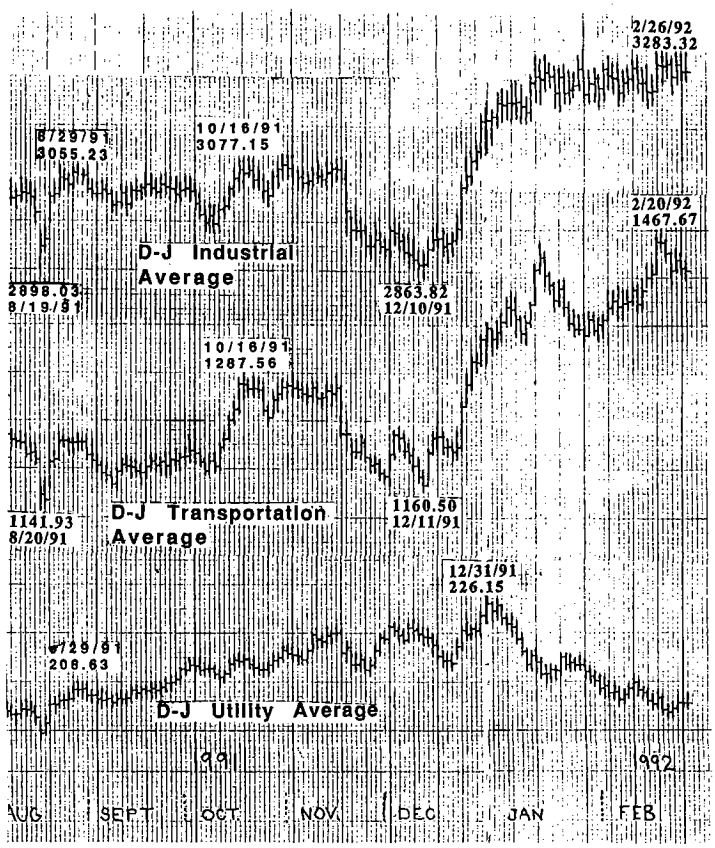
serve requirement helped Greenspan dodge political pressure without cutting short-term interest rates. In fact, the move seems to underscore the Fed's recent aversion to further rate cuts. The Fed seems to be betting that past cuts are enough to spark an upturn.

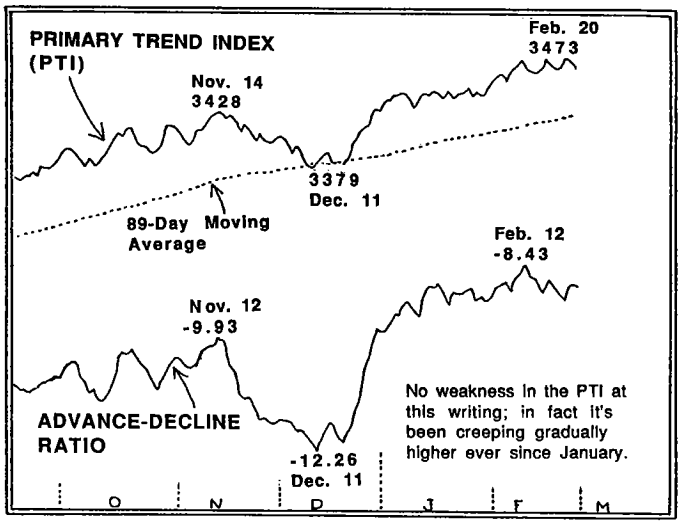
Indeed, in his Feb. 19 testimony, Greenspan reiterated

"INFLATE OR DIE": THE PROBLEM: How do you re-inflate a debt-ridden economy, an economy which is feeling the overall pressure of DEFLATION? Answer: It's not easy. With a total of 15 trillion dollars in public and private debt overhanging the US, this nation cannot tolerate, **absolutely cannot take, deflation.** In today's deflationary environment, the mountain of US debt has to be "floated up," made safe, made "handle-able." Look at it this way -- today's mountain of debt is denominated in dollars. Consequently, there is only one way out, the dollar has to be degraded. If you owe a billion dollars and a year from now that billion dollars is worth only $950 million (inflation), then you've got the problem under control. But if a year from now that billion is worth a billion one hundred million (deflation), then you're on your way to bankruptcy.

This is the dilemma that faces the US today. I've called it the **"Inflate or Die"** Syndrome. The Fed sees the problem. And it's acting -- to re-inflate the US economy. What do you do if you're the Fed and you want to re-inflate? You repeatedly lower the Fed Funds rate, you repeatedly lower the discount rate, you flood the banks with reserves, you buy government securities, you tell the Treasury to cut down on issuing long bonds and you tell the Treasury to stay in short-term paper (the Fed can control the short paper). Finally, you continue to issue optimistic predictions about the economy.

But what's this? You cut the discount to 3 1/2% (down a whopping 1% at the latest clip) and a few months later (can you believe it?) the long bond is back to yielding 8% (actually yielding higher than before the 1% cut). Worse, T-bill (short term) yields are now climbing, and on February 21 the T-bills hit a yield of 4%. If you're Fed Chairman Alan Greenspan, little beads of sweat begin to appear on your forehead. How the devil are you going to explain this to Mr. Bush -- and to Congress?





Back in 1963 when the discount rate was 3.5%, the yield on the long bond was 4%. Now, with the discount rate again at 3.5%, the yield on the long bond today is 8%. What's happening? Answer: the total federal debt is approaching $4 trillion and investors have become much smarter (they call it being "more sophisticated "). Investors know that massive debts and deficits are handled in only one way by the US government. The government never reduces its debts, it inflates them away. And rising federal deficits have always given way to tomorrow's inflation.

But suddenly, the incredible tower of US debt becomes a force (God help us) for deflation, not inflation. Americans, up to their ears in debt, get that choking feeling, and they stop shopping. US corporations, gagging with debt, cut back -- they lay off people by the tens of thousands. States, counties, cities, feeling the debt and budget squeeze, send out pink slips by the carload.

And the billions of dollars the Fed pumps into the banks, it doesn't go into the economy, it goes into the stock and bond markets. The markets boil, the economy stagnates, and the American people -- they sign up for unemployment insurance or look for jobs.

Then it happens, we get a few faint hints of an upturn in the economy. But the markets have already sensed a possible upturn. Super-sensitive to trends in interest rates, the D-J Utility Average tops out at 226.15 on December 31, 1991. That's the first hint that the big money, the conservative, income-minded money that buys utility stocks, is exiting the markets. In early January the bonds and (worse) the T-bills top out. By late February the decline in most money market instruments becomes noticeable (dramatically so). The T-bonds hit 8% yields, mortgage rates climb to almost 9%. T-bills and short rates in general move up.

All of which takes us to the present. But the big problem remains -- THE FED MUST RE-INFLATE. The Fed cannot allow deflation to take over. For if deflation wins, a mighty ocean of deflationary debts will swamp the US, choking it with dollars that cost more and more, not less.

In the meantime -- the dollar itself (reacting to higher interest rates) begins to rise. On February 22 the Dollar Index (March) breaks up and out of a "head-and-shoulders" bottom formation and closes above 90 for the first time. The rising dollar will make US exports more expensive -- and it will impact on the US trade balance.

And a few people ask, "With massive debt servicing requirements, with powerful deflationary forces pitted against the Fed's inflationary intentions, is the dollar about to become KING? Is that what the rising dollar is telling us? Are we moving towards the time when the currencies (and specifically the dollar) are the place to be?"

By mid-year 1992 we should know the answer. But remember this -- bull markets begin in the area where the fewest investors are situated. Here in 1992, could that place be liquidity? In a world choking with debt, could unencumbered cash be the scarcest commodity of all? And could it be that the cash of choice (at least for a while) will be the dollar? Ah, the irony, the ornery-ness of the markets.

STOCK MARKET: The stock market, which has been the principle beneficiary of the Fed's re-inflation process, has moved into the area of dangerous overvaluation. On a yield basis, the stock market is at the point where the best to come has probably been fully discounted.

How do we know? Historically, one of the most reliable indications of a market that has fully discounted good or bad times is the **yield on the Dow.** And the Dow is now vastly overvalued.

Why do we base the valuation studies on yields rather than earnings? Here's the answer: A company's earnings can shoot up or down in a single quarter. Earnings can fluctuate wildly. And earnings can also be deceptive -- they can be whatever an accountant says they are.

But dividends are a different story. A company doesn't raise its dividend without a great deal of debate and study, and it doesn't boost its dividend unless it is confident that it can support that boost and keep it there. By the same token, a company doesn't lower its dividend without a lot of hand-wringing and discussion. Why? Because a lowered dividend reflects on the company's abilities, and a lowered dividend is also quickly reflected in the market price of the stock.

So dividend yields over the years have proved to be the most reliable indication of a company's fortunes as well as a market's valuation. Historically, whenever the D-J Industrials Average yields 6% or more, the stock market has tended to be undervalued and a buy. Historically, whenever the Dow has yielded 3% or less the stock market has been overvalued and ultimately proved to have been a sale.

All right, what about the Dow yield today? Is the yield really that low -- and dangerous? For comparison purposes, following is a list of Dow yields at sucessive bull market tops: Sept. 3, 1929 -- the Dow yield was **2.9%**; Mar. 10, 1937 -- Dow yield was **3.6%**; May 29, 1946 -- Dow yield was **3.2%**; Feb 9. 1966 -- Dow yield was **2.9%**; Aug. 25, 1987 -- Dow yield was **2.6%** (although 1987 was not an orthodox bull market top, it did precede an historic crash).

At the February 26, 1992, bull market high, with the Dow at 3283.32 and with dividends at 91.08, the yield on the Dow was at **2.78%.** That was lower than the yields at all previous post-WWII bull market tops with the single exception of 1987. What more can I say?

MARKET ACTION: The record Dow highs (see page 1 chart) of February 24 and 26 were solo performances. Those highs were not confirmed by the Transports, the Utilities, the NYSE Composite, the S&P 500, the Value Line Composite, or the advance-decline ratio. Furthermore, my five-day moving average of new highs (NYSE) topped out at 255 on December 31. The MA of new highs is now 91.

Market declines are unpleasant, but they serve one extremely useful purpose. They allow us to gauge the strength of the market. We will judge the strength (or weakness) of this market by the action following a decline. At that time we will want to see whether the market can regain its former strength, whether the various averages and indices can rally to new highs -- or whether the peak of strength has been seen. The upside levels are all there for us to see. It remains for this market to better those levels (the high for the D-J Transportation Average was **1467.68**, struck on February 20 -- keep your eye on this number).

READING THE CHARTS: Many years ago I used to talk to my old friend, John Magee (he co-authored the classic book, *"Technical Analysis of Stock Trends"*). John is long gone, but I often think of him. One of John's favorite sayings was, "Don't tell me what to buy, just tell me when to buy it." In other words, everything tradeable moves up and down in price, and you can make (or lose) money on any item from zinc to T-bonds to General Motors. But the important thing is when to buy and when to sell. That's what determines profit or loss.

Another favorite Magee saying was, "Don't bother me with facts, my mind is made up." John was referring to his beloved charts, and he was of the firm opinion that the charts told him all he needed to know, and that facts about a given company would just confuse him. It was obvious that John Magee was a pure technician.

Of course, a case can be made for either side of this argument. If you have the right facts about a company, then sooner or later the market will bear you out. You may have to wait a few months or even a few years, but ultimately the RIGHT facts will move a stock. The problem is to get the right facts, and that is never easy.

On the other side of the ledger, if you can read the charts correctly, you're going to do well. But very few people are that good at reading charts. John used to say, "The fault isn't in the charts, it's in the reader." True, but I haven't yet met a reader who is infallible when it comes to charts -- or anywhere near infallible.

PRIMARY TREND INDEX: My Primary Trend Index (PTI) isn't the least bit interested in economic facts. John Magee would have loved the PTI. He would have loved it because it's based strictly on market action. The PTI is based on the daily action of eight indices, and each of these indices is intimately connected with what the market is actually doing. The theory behind the PTI is that when the majority of these eight indices are rising, the PTI will be rising, and there's no way the market can go down when the PTI is in a rising trend. The same holds true in reverse when the majority of these eight indices are declining.

My PTI isn't interested in dividends or valuations. The yield on the Dow could go to 2% (of course, it never has) and if the underlying technical situation in the market was right, the PTI would be rising.

So it's interesting. By classic definition (yields) today's market is very overvalued. You seldom see the Dow yielding as little as 2.8%, and you seldom see the much broader S&P 500 Composite yielding 2.9%. And yet, while this is happening, my PTI remains above its 89-day exponential moving average. In other words, the PTI remains in the bullish mode.

So what's the poor, confused investor to do? It's a very tricky situation. For instance, broadly based mutual funds will tend to move with the PTI. As long as the PTI is climbing (and it is climbing -- see page 2 chart), the market will tend to be firm or rising and so will a broad-based mutual fund. But that's not necessarily true of a specialized fund or a specific stock group. For instance, within a basically rising stock market a given stock group can get hit -- hard. Currently, the Biotech group is down about 10% from its recent peak. It's conceivable that if the PTI was to turn down, by the time it broke below its 89-day moving average the Biotech group could be down 50%.

In other words, the PTI can't do all your thinking for you. Neither can the PTI guarantee profits or losses. But what the PTI can tell you is that the broad trend of the market is bullish or bearish. In that, I'd say that the PTI probably correlates well with the trend of the advance-decline ratio or any broad index or market average.

DON'T LOSE IT: I've written about this before, but I want to repeat it (with thanks to *Technical Trends*, PO Box 792, Wilton, CT 06897). A study of 62 years of market activity shows that the average increase in the S&P 500 was 9.4% a year. But if you attempted to time your investments and you missed the best 50 months (which amounted to 6% of the time), you would have netted zero.

Says *Technical Trends*, "The study did not monitor what would have happened if you missed the 50 WORST MONTHS of those 62 years. The larger your investment pool, the more this applies to you, since liquidity becomes more important the bigger your wad. But the 50 top months is upside down. Markets usually drop 40-50% in bear markets. A 50% loss requires a 100% gain to recover. So I'd argue that it's more important to MISS BEARISH MONTHS. Let the 50 bullish months take care of themselves. If you missed the 50 worst months and half the bullish ones, you'd do OK, I'll bet."

Russell Comment: I find this fascinating. In other words, it's more important to protect yourself against losses in bear markets than it is to garner big profits in a bull market. This dovetails with Russell's First Rule of Investing which states, "ABOVE ALL, DON'T LOSE MONEY."

Let me put it a different way: you can be in money market funds or bonds or stocks and you'll do fine just compounding your money as long as the markets don't go down. But it's those bear markets that kill you. A big bear market can wipe out years of compounding or trading profits. That's why many BIG investors are willing to step out of overvalued markets and switch to compounding safely in T-bills or money instruments. They're happy to compound at 4-5 or 6% rather than take the chance of a huge loss in a bear market. Seasoned investors aren't greedy, and they like to buy great values and sell overpriced values.

INVESTMENT POSITION: Despite a dangerously low yield of 2.78% on the Dow, we have no proof that the bull market has ended. So the bull stays in the box.

Sanity seems to have entered the Biotech scene, and possibly even the over-the-counter area in general. We'll see. This is probably a good area in which to avoid losses. The market is over-bought; there are a good many divergences and non-confirmations in the various averages.

Happily for those in any type of money instrument, the rates are creeping up, and the bargain area for refinancing mortgages is probably over. For bond buyers, hold off, higher yields should lie ahead.

NOTES & QUOTES: The real story (thank you *LA Times*) finally emerges. And Desert Storm appears more like a salvage operation than a "triumph." For 10 years the US government, at the behest of the Reagan and Bush White Houses, were feeding the monster, Saddam, billions in arms while providing him with vital military technology and information. Is Bush the master of foreign affairs as the White House would have us believe? As far as I'm concerned, he's a disaster. . . And now Bush wants to sell the Mideast $15 billion more in arms. Well, we have to get out of this recession some way, right?

Bush Secret Effort Helped Iraq Build Its War Machine

■ **Persian Gulf:** Documents show that 9 months before Hussein's invasion of Kuwait the President approved $1 billion in aid. Objections from others were suppressed.

By DOUGLAS FRANTZ and MURRAY WAAS, SPECIAL TO THE TIMES

WASHINGTON—In the fall of 1989, at a time when Iraq's invasion

■ FIRST OF THREE PARTS

* *

Bush agrees with scholars who say that the president already has the power of a line item veto (according to the Constitution). Bush claims he's waiting for the right item to veto. He's been waiting for years. C'mon George, stop talking and waiting and move. Let's try a line item veto.

* *

California has a higher unemployment rate than New Hampshire. California also has 54 electoral votes, one-fifth of the number needed for a president to be elected. California is also strongly "pro-choice." Russell guess: for the first time in 28 years a Democrat will take this state.

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There's nothing that disgusts me more than the current insane federal tax system. I'm an advocate of the flat tax. If we put a flat tax of 19% on everyone in the nation (excluding true poverty cases) the Treasury would collect more money than it does now. A flat tax would mean the end of tax attorneys, tax accountants, the IRS, the tax lobby, the tax courts, the tax adjusters, the whole tax establishment that keeps tens of thousands of people employed. A flat tax would put an end to the curse of the US public spending millions of hours working over their taxes or their company's taxes. The problem: invested interests, and cowardly politicians who refuse to attack an inefficient and stupid system. And, of course, the current tax system gives Congress power, the power to raise this tax or lower that tax. And Congress will do anything to hold onto its power.

To my mind, only Jerry Brown talks sense on taxes. Brown wants to eliminate ALL federal taxes, then put a 13% flat tax on all income except rent, mortgage interest and charitable contributions. Then he'd institute a 13% value-added tax. I'm all for his tax program, which won't happen, because the tax establishment would never allow it.

* *

Mild Recession? The decline in the labor forces, people who have lost their jobs or are looking for work, amounted to 1.2 million in the first 19 months of this recession. This compares with 125,000 in the first 19 months of the severe 1982 recession. Furthermore, a larger proportion of jobs lost in this recession belonged to higher-wage professionals, with serious consequences for retail sales and business confidence. Because of falling interest rates, total personal income has now grown for two years, and in NYC it has fallen by 2 to 3 percent. The last time this happened was during the Depression of the '30s.

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The magnitude of the GM losses have been masked. Actually, GM's EDS Corp. earned $156 million, Hughes Electronics division had a record $256 million third quarter. GM's overseas earnings were $2.1 billion last year. But get this -- GM's North American car and truck **losses were an unbelievable $8.7 billion,** equal to $1,900 on every GM auto sold in the US last year. How do you turn around an $8.7 billion loss, and produce a profit? At any rate, GM took its first step; it's going to try to limit its losses, which means closing 21 plants over the next four years. My reaction: to lose $8.7 billion, GM's got to be outrageously inefficient. And to turn the N. American situation from an $8.7 billion loss to a profit -- I really wonder if it can be done.

* *

All the fear talk about a change in the currency is just that -- fear talk. However, if you have a $50 or $100 bill, series 1990, look at the face of Grant or Franklin. Around the outer edge of the portrait is a tiny almost microscopic rim of type which appears like a thin line to the naked eye. The message in caps says, "United States of America" over and over. Now hold the bill up to the light. A tiny polyester thread is imbedded vertically between the left edge of the bill and the Federal Reserve district seal. The tiny message here says USA plus the denomination of the bill. However, if your bill doesn't have the above, it may just be an older bill. It will take about five years for the old bills to disappear. The Treasury will be using this process on all 5s, 10s, and 20s. Why all the fuss? Because some of the new Japanese copier machines are so good they can make almost perfect copies of the old bills.

* *

This year's federal deficit will be well over $400 billion. A $400 billion deficit this year will mean that during the third quarter the Treasury will have to borrow an unbelievable $3 billion a day. And Congress hasn't started working on the 1993 budget yet. Watch those bonds, that's where the story is.

* *

Despite the recession, home prices have been rising. The average price of a home in 1990 was $142,700, and the price rose to $150,300 on Dec. 31, 1992, a 5.3% increase. Prices increased in 23 localities and declined in nine. Most expensive place to live -- Honolulu. Next most expensive, Los Angeles/Anaheim, San Francisco, Washington, DC, San Diego. Cheapest areas: Greensboro, NC, St. Louis, MO, Portland, OR, Louisville, KY, Houston, TX.

* *

Japan is known as a "safe country." Little violence -- you can walk the street of Tokyo night or day without fear. But corruption, it seems to be endemic in Japan. Scandal after scandal rocks the country. Graft, corruption, pay-offs at the highest levels. The corruption is now impacting on the Japanese stock market. Nobody, it seems, knows where it will all end.

* *

Incredibly, Japan has now passed the US as the world's top patron of industrial research and development. Japan, with half the population of the US, spent $586 billion in 1990 on capital investment versus $524 billion spent by the US. What is emerging now is the radical idea that Japan as a whole, for the first time, is challenging America's traditional role as the world leader in overall industrial research. And the ominous part of it is that Japan's role is accelerating while the US is decelerating. The full brunt of this change will become apparent as the 1990s roll on.

* *

Will AIDS be spreading in the US? Read these statistics and see what you think. *Bride's* magazine's 1992 Attitude Survey came up with the following: (1) 19% of the engaged people have dated a married man. (2) 27% of the brides-to-be have had an abortion. (3) Only 5.5% of the brides are virgins, and only 3.7% of the grooms are virgins. (4) 40% of the men and women had their first sexual experience before the age of 17. (5) 12% of the grooms had 20 or more sexual partners before they finally made it to the altar.

* *

Strange: I've kidded Faye about having a direct channel into my unconscious. Often she knows what I'm going to say almost before I say it. Well, on February 19 I did something stupid with my Harley motorcycle; I banged into a car going very slowly, dumped my bike, scraping a knee, and ruining a pair of blue jeans.

The accident occurred about 3PM in the afternoon. I went home, and called Faye at her office to tell her about it. Before I could say anything she started, "Something very weird happened to me. About 2:30 I was standing next to my secretary, when suddenly I felt very faint and I almost passed out. That's never happened to me before. I can't understand it." Then I told Faye about my accident. Coincidence, psychic phenomena? I don't know, do you?

* *

I went to high school (Horace Mann in NYC) with Marvin Davis (he was one class below me). Marvin was a big guy (6' 3"), and later a big investor and big spender (heck, he treated his whole high school reunion class to dinner at 21 in NYC). Marvin always had a great knack for timing. He sold out his huge oil holdings at the top of the oil boom. He bought and sold the Beverly Hills Hotel just right. Marvin bought the fabled Pebble Beach resort, and sold it to the Japanese Mr. Isutani for a fat $841 million right at the top of the market (September, 1990). Two weeks ago Mr. Isutani sold Pebble Beach to another Japanese firm for $500 million. That's a $341 million loss for Mr. Isutani in less than two years. Good timing again, Marvin. Bad timing, Mr. Isutani.

* *

Nobody hates smoking like an ex-smoker, and I include myself in that category (I stopped smoking in 1970). Smoking is the leading preventable cause of death. Smoking kills more people than does the combined total of AIDS, cocaine, auto accidents, alcohol, fire homicide and suicide. Tobacco related deaths in the US are put at 430,000 a year or 1100 a day. About 25% of adult Americans smoke, but late figures show that more teenagers are smoking. My

personal wish -- I wish I could have all those years back when I smoked. However, medical evidence suggests that if you quit smoking, and after ten years there have been no ill-effects, your body acts as if you have never smoked. I hope that's right, because it's been 21 years for me since I quit. Russell advice: If you smoke (and my guess is 25% of my subscribers do), stop -- today. Years ago the British ran an ad which stated simply, "Intelligent people don't smoke." There was something about that statement that hit me like a ton of bricks (I guess I thought I was intelligent). I quit.

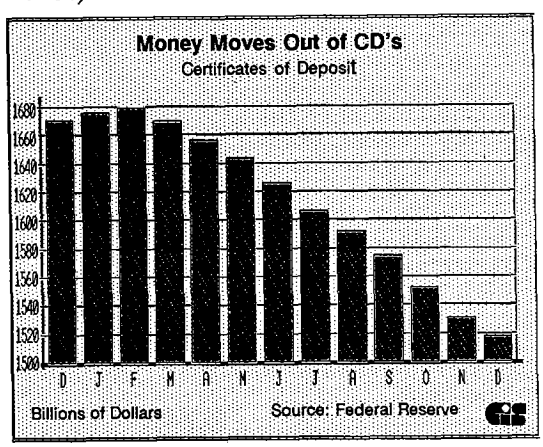
* *

The US spent trillions of dollars winning the Cold War. Now that we have won, Russia and the various Soviet countries are in various states of collapse. My first reaction was, "Let 'em collapse." My more reasoned response was, "Let's do everything we can within reason to help these people; if we don't, the results could be dire (the fact is that the hardliners are chaffing to take over again)." We've gone this far (in spending trillions of dollars on the cold war), we might as well finish the job. After all, look at what happened when we didn't finish the job in Iraq -- right George?

Tony Lewis in the Feb. 16 Op-Ed page of the *NY Times* (I often disagree with him but not this time) starts his column: "It may have been the greatest failure of American political imagination since World War II, the costliest abdication of leadership: President Bush's failure to join promptly in helping to build new societies in what had been the Soviet Union. So we must begin to think as we see what is happening to the former Soviet republics today. There is devastating inflation and economic distress, social tension, political menace. People are asking whether Yeltsin can survive in Russia or may be overthrown by a new authoritarian right. The stakes are enormous, not just for them, but for us -- Europe, the US and the developed world." Russell comment: Yeah, I finally agree with you Tony. Remember what happened in Germany after WWI? Germany's total collapse brought on Hitler and WWII.

* *

After February 1991 money began to run out of CDs and into the stock market. The public reasoned, "We're only getting 4% on our CDs, and the stock market is heading higher. Why not switch and make up the shortfall in the collapsing level of interest rates." The chart of CD money-movement is dramatic. Here it is (courtesy of *Commodity Information Systems*, 211 N. Robinson #3000, Okla. City, OK 73102).



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Back in early '42 I enlisted in the army from college (Rutgers), and a few months later I was called up. I had requested the Signal Corps but I was promptly put in the Infantry. One of the guys with me at infantry training at Camp Wheeler, Macon, Georgia, was a young attorney named Burt Roberts. Burt possessed an explosive temper and a highly-developed sense of justice. He was furious because he had been put in the Infantry instead of the Adjutant General's department "where lawyers were supposed to go." We all called Burt "Red" because of his flaming red hair and his violent temper (the temper went with the hair). Red and I were both with the 9th Battalion, which (because they worked us so hard) was known as "the Bloody Ninth."

Time passed. I transferred to the Air Force, became a bombardier, and went into combat in Italy. I lost track of the guys from the Bloody Ninth. Later, after the War, I found out that the Bloody Ninth had landed in Anzio and half of the guys had been killed on the first day of battle. I don't know if Red stayed with the Ninth Battalion or not, but I often read about him in the *NY Times*. Red is now Judge Burton Roberts, Chief Administrative Judge of the Supreme Court, Bronx, NY. One story I read about Red was that after sentencing a Gypsy woman for stealing, the woman shouted, "Judge, I'm innocent, and I'm putting a fifty-year old Gypsy curse on you." Judge Roberts shot back, "I'm cancelling out your curse -- and I'm putting a five thousand-year old Jewish curse on you." That's my old buddy, Red Roberts (excuse me, Judge Roberts). So if you happen to go before Judge Roberts in New York, just be damn careful what you say .

* *

A lot of people are wondering how much money Mike Tyson has left after all his spending and wild living. "I spent a lot," said Tyson, "Yeah, I bought a lot of goodies." Tyson has 30 cars, a few houses, and a lot of expenses. He will pay Williams and Connolly, a Washington-based law firm, an estimated $2 million for his trial defense. Tyson spent millions on partying, and other nonsense. In his lifetime he took in over $100 million in fight gates. Nobody knows exactly what Tyson has left after all expenses, but the best guess seems to run to around $10 to $15 million -- maybe.

* *

Another Mike is coughing up money, Mike Milken, the former junk bond financier. In jail on a ten-year sentence, Milken was ordered to pay a fine of $600 million. But that was only the beginning. The word is that Milken has reached a settlement for future claims for $1.3 billion. Of that amount, Milken would pay $500 million, $400 million would come from a restitution fund administered by the SEC, and the rest would come from "other defendants" which are, so far, unnamed. Everybody's question -- how much has Mike got left? Best guess is that Milken's family controls up to $1 billion and Milken himself will be left with about $225 million. Mike will probably be out of jail in two or three years, and yeah, he'll be eating steak.

* *

Sports: In 1984 the San Diego Padres baseball team won the National League pennant. Their total payroll for all their players that year was $7 million. So far this year the Padres have signed only 13 players. The bill for those 13 is $24,740,000, and there are 12 more players to go. Said club president Dick Freeman, "We've finally gotten to the point where the water level is over our heads. It's not just the Padres, it's 16 of 28 other major league teams." Russell comment: Baseball salaries rose 45% from 1990 to 1991. Baseball has finally discovered the perfect formula for -- bankruptcy.

* *

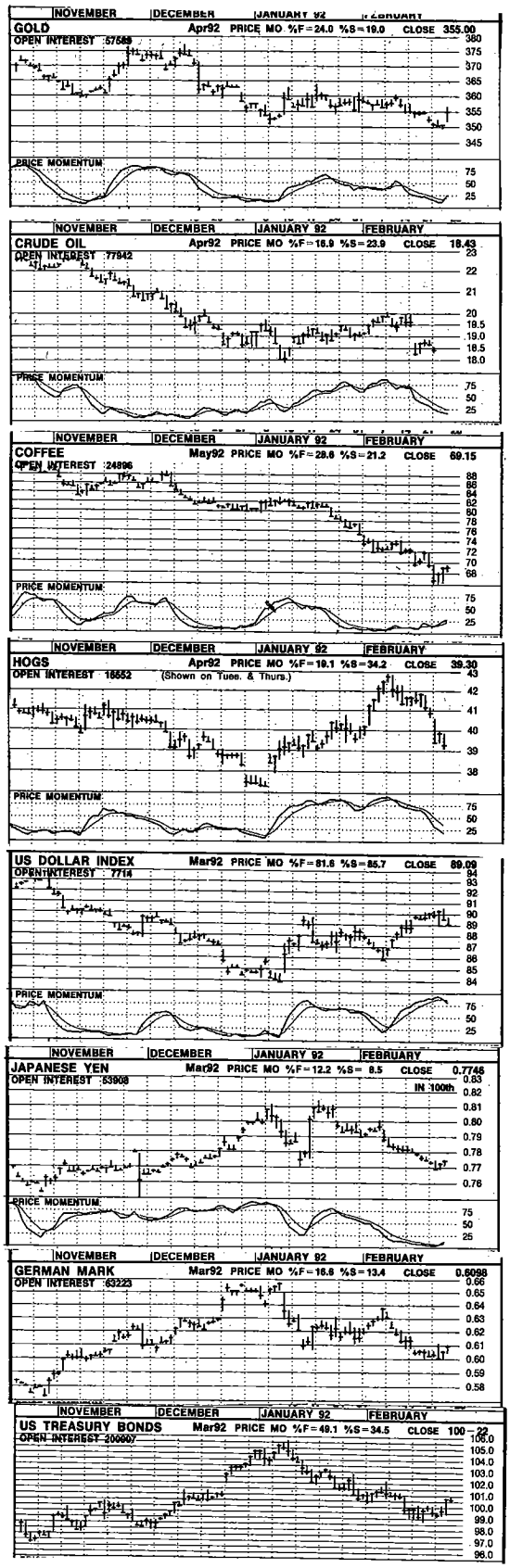
Ben Franklin prescribed, "Early to bed and early to rise . . . " America is starting to follow Ben's advice. The trend across the US is to go to bed earlier and get up earlier. Traffic engineers say there are more cars on the road before dawn. TV stations are hearing that fewer people are watching their late shows, and more are watching the early morning shows. Pacific Gas & Electric has reported a significant decline in demand for electricity in the 9-11PM period. The aging of the baby boomers and the proliferation of women working have changed America's habits in eating, musical tastes, family size and entertainment.

CHARTS, COMMENTS: Despite all the Fed's efforts to re-inflate, the charts still look rather deflationary (charts courtesy of *Investor's Business Daily).* Gold and oil (black gold) appear to be anything but inflationary. World coffee has collapsed along with the price of the piggies. Bonds have been heading down, which means interest rates have been heading up. But ah, the Fed might take heart in the trend of copper and lumber, both of which have been trending up.

The major non-dollar currencies, the mark and the yen, have been heading south, while the dollar has been climbing. On February 26

the Commodity Research Bureau's Futures Index broke to 207.50, its lowest level since last July.

Meanwhile, Mr. Greenspan makes the best of it. With his re-inflation efforts still rather iffy (and they are, so far), he tells Congress, "Gosh guys, things should pick up in a month or so, and even if they don't, there's always another cut in the discount rate. And hey look, just look how low inflation is."



GOLD: As it has been all along, gold was supported (bought) when it slipped below 350 last week. On Feb. 27 gold popped 4.20 as large orders from London and Switzerland hit the market (the rumor was that 300,000 ounces of gold were bought for Middle East principals). However, I am watching gold for another reason. Gold should tell us whether the Fed's re-inflation policy is successful or not. If the Fed is successful, we should see gold moving higher. If the Fed fails, I think gold will sit here around 350. Can this economy move up without inflation? Personally, I doubt it. I've said it over and over. <u>You either inflate the debt, or the debt deflates us.</u> Gold is the barometer.

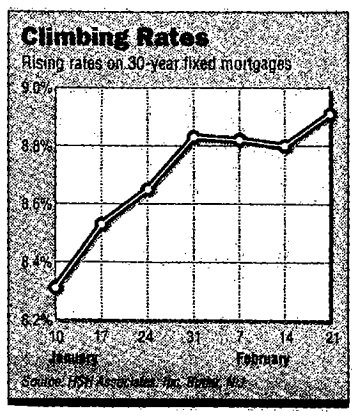
LATE NOTES: A few years ago I said that when the recession comes "the Fed will fight it tooth and nail." And that's what's been happening. But I think the Fed has finally realized that their manipulated big drop in short rates has punished those who depend on interest income for living expenses. And vanishing interest income has hurt retail sales. Therefore, the Fed would love to "get by" this recession without another discount rate cut. But political pressure may not allow them to do it.

Now that Alan Greenspan's been confirmed as Fed chief for another four years, will he be less swayed by political pressure? Will he continue to talk in riddles? Does he know what's happening? Your guess is as good as mine. Former Fed member Seger says that Greenspan likes the power and the perks. I knew that.

I also said that when the recession comes, it will be extended, persistent and deceptive. The March 1 *USA Today* headlined it, "The Recession That Won't End."

Economists have, for the most part, stopped pooh-poohing the monster deficits. Bond, note and bill holders are receiving the benefit of interest on the debt but the sheer size of the deficits are preventing the government from instituting new programs. Month by month, year by year, the accumulating deficits are becoming the single biggest economic force in the nation. In my opinion, most of us will live to curse the presidents and congresses that have allowed these deficits to accumulate. Certainly, our children will curse the never-ending parade of political incompetents who allowed the financial structure of the nation to be destroyed.

<u>Chart of the Week:</u> Here we see the 30-year fixed mortgage rates climbing to just below 9%. As I said in the last Letter, the bond market is now the policeman of the economy. Look at it this way, if you own a stock, you're thinking about next year's potential profits. If you own a long bond, you're thinking about what you'll get back 15, 20 or 30 years from now.



<u>Cartoon of the Week:</u> The cartoonists haven't had this much fun since Jimmy Carter and the killer rabbit.

HIS STATURE HAS BEEN DESTROYED... HIS ECONOMY IS IN A SHAMBLES...HE'S OUT OF TOUCH WITH THE NEEDS OF HIS OWN PEOPLE... HE WON'T BE AROUND MUCH LONGER.
HIS STATURE HAS BEEN DESTROYED... HIS ECONOMY IS IN A SHAMBLES...HE'S OUT OF TOUCH WITH THE NEEDS OF HIS OWN PEOPLE... HE WON'T BE AROUND MUCH LONGER.
BY ROGERS FOR THE PITTSBURGH PRESS